

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name PARMA-SANDSTONE POLICE DEPARTME	County JACKSON
Fiscal Year End 02/28/2006	Opinion Date 08/30/2006	Date Audit Report Submitted to State 09/19/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

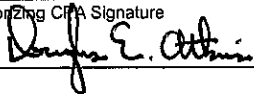
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MARKOWSKI & COMPANY CPAs		Telephone Number (517) 782-9351	
Street Address 2880 SPRING ARBOR RD		City JACKSON	State MI
Authorizing CPA Signature 		Printed Name DOUGLAS E. ATKINS, CPA	Zip 49203
		License Number 1101016353	

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**

**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2006**

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT

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# MARKOWSKI & COMPANY

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CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF  
SOUTH CENTRAL MICHIGAN

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Parma-Sandstone Inter-Municipal Police Department  
Parma, Michigan

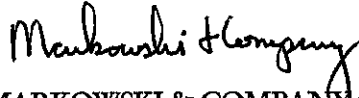
We have audited the accompanying financial statements of the governmental activities and the major funds of the **Parma-Sandstone Inter-Municipal Police Department** as of February 28, 2006, and for the year then ended. These financial statements are the responsibility of the Parma-Sandstone Inter-Municipal Police Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Parma-Sandstone Inter-Municipal Police Department as of February 28, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on page 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Parma-Sandstone Inter-Municipal Police Department has elected not to present Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be a part of, the basic financial statements.



MARKOWSKI & COMPANY CPAs  
August 30, 2006

## **BASIC FINANCIAL STATEMENTS**

Government-Wide Financial Statements

Governmental Fund Financial Statements

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Statement of Net Assets

Statement of Activities

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
STATEMENT OF NET ASSETS  
FEBRUARY 28, 2006

	<u>Total Governmental Funds</u>
<b>ASSETS:</b>	
<b>Current Assets:</b>	
Cash	\$ 7,901
Due From Other Governments	432
Prepaid expenses	<u>2,910</u>
Total current assets	11,243
<b>Noncurrent Assets:</b>	
Capital assets, net of accumulated depreciation	<u>124,949</u>
Total assets	<u>136,192</u>
<b>LIABILITIES:</b>	
<b>Current Liabilities:</b>	
Deferred Revenue	295
<b>Noncurrent liabilities:</b>	
Accrued payroll	<u>40,654</u>
Total liabilities	<u>40,949</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets:	
Sandstone Charter Township	41,650
Parma Township	41,650
Village of Parma	<u>41,649</u>
Total invested in capital assets	<u>124,949</u>
Unrestricted:	
Sandstone Charter Township	(10,397)
Parma Township	(10,397)
Village of Parma	<u>(8,912)</u>
Total unrestricted net assets	<u>(29,706)</u>
Total net assets	<u>\$ 95,243</u>

The accompanying notes are an integral part of this statement.



PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
STATEMENT OF ACTIVITIES  
THE YEAR ENDED FEBRUARY 28, 2006

Functions/Programs:	Expenses	Charges for Service	Operating Grants & Contributions	Capital Grants & Contributions	Net (Expense) Revenue
Government activities:					
Public safety	\$ (210,191)	\$ -	\$ 207,158	\$ -	\$ (3,033)
Total governmental activities	\$ (210,191)	\$ -	\$ 207,158	\$ -	(3,033)
<b>General revenues:</b>					
Interest and rents					2,161
Fines and forfeitures					7,470
Donations					4,838
Total general revenues					14,469
Change in Net Assets					11,436
Net Assets - Beginning					83,807
Net Assets - Ending					\$ 95,243

The accompanying notes are an integral part of this statement.

## GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Fund Balance Sheet

Reconciliation of the Governmental Fund Balance Sheet to Net Assets

Governmental Fund Statement of Revenues, Expenditures, and  
Changes in Fund Balance

Reconciliation of the Governmental Fund Statement of Revenues,  
Expenditures, and Changes in Fund Balances to the  
Statement of Activities

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
GOVERNMENTAL FUND BALANCE SHEET  
FEBRUARY 28, 2006

	Operating Fund	Restricted Police Fund	Total Governmental Funds
<b>ASSETS:</b>			
Cash	\$ -	\$ 7,901	\$ 7,901
Due From Other Governments	-	432	432
Total assets	<u>\$ -</u>	<u>\$ 8,333</u>	<u>\$ 8,333</u>
<b>LIABILITIES:</b>			
Deferred Revenue	\$ -	\$ 295	\$ 295
Total liabilities	<u>-</u>	<u>295</u>	<u>295</u>
<b>FUND BALANCE:</b>			
Unreserved	-	8,038	8,038
Total Fund balance	<u>-</u>	<u>8,038</u>	<u>8,038</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 8,333</u>	<u>\$ 8,333</u>

The accompanying notes are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
FEBRUARY 28, 2006

Total fund balance - total governmental funds	\$ 8,038
Amounts reported for governmental activities in the statement of net assets are different because:	
The Department's insurance policy terms run from July 1, 2005 to June 30, 2006. For the statement of net assets, the unexpired premiums are reported as a prepaid expense.	
	2,910
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	
Add - Capital assets	169,051
Deduct - Accumulated depreciation	(44,102)
The Department's liability for unpaid sick, vacation, and compensatory time for its full time police officers is accrued as a liability for the statement of net assets.	
	<u>(40,654)</u>
Net assets of governmental activities	<u><u>\$ 95,243</u></u>

The notes to the financial statements are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
THE YEAR ENDED FEBRUARY 28, 2006

	Operating Fund	Restricted Police Fund	Total Governmental Funds
<b>REVENUES:</b>			
<b>Intergovernmental:</b>			
Government contributions	\$ 204,979	\$ -	\$ 204,979
Federal grants	1,474	-	1,474
State grants	-	705	705
Total intergovernmental	206,453	705	207,158
<b>Interest and rents:</b>			
Interest	-	61	61
Rents	-	2,100	2,100
Total interest and rents	-	2,161	2,161
Fines and forfeitures	-	7,470	7,470
Donations	-	4,838	4,838
Total revenues	206,453	15,174	221,627
<b>EXPENDITURES:</b>			
<b>Public Safety:</b>			
Officers wages	89,446	-	89,446
Clerical wages	14,541	-	14,541
Payroll taxes	7,955	-	7,955
Health insurance	26,826	-	26,826
Life insurance	850	-	850
Unemployment	171	-	171
Workers compensation insurance	8,728	-	8,728
Retirement	8,608	-	8,608
Office supplies	604	-	604
Uniforms	-	427	427
Operating supplies	241	1,068	1,309
Professional services	1,760	4,260	6,020
Radio maintenance	800	793	1,593
Auto maintenance	2,571	111	2,682
Gas and oil	5,043	-	5,043
Printing	-	-	-
Phone, cellular, pager	2,516	213	2,729
Utilities	1,910	-	1,910
Repairs - Building	607	84	691
Computer expense	980	1,688	2,668
Schooling	-	1,000	1,000
Training	-	175	175
Miscellaneous	-	345	345
Capital outlay	32,296	2,038	34,334
Total expenditures	206,453	12,202	218,655
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	2,972	2,972
<b>FUND BALANCE - Beginning</b>	-	5,066	5,066
<b>FUND BALANCE - Ending</b>	\$ -	\$ 8,038	\$ 8,038

The accompanying notes are an integral part of this statement.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
THE YEAR ENDED FEBRUARY 28, 2006

Net change in fund balances - total governmental funds	\$ 2,972
Amounts reported for governmental activities in the statement of activities are different because:	
The effect of reporting insurance premiums on the full accrual basis for the statement of net assets results in an adjustment to insurance expense reported in the statement of activities.	185
Government funds report capital outlay as expenditures. However, in the government wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets purchased in the current period.	34,334
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(14,266)
The accrual for sick, vacation and compensatory time is adjusted annually. This change in the liability is reported as an expense in the statement of activities.	<u>(11,789)</u>
Change in net assets of governmental activities	<u>\$ 11,436</u>

The notes to the financial statements are an integral part of this statement.

## NOTES TO THE FINANCIAL STATEMENTS

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
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**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Parma-Sandstone Inter-Municipal Police Department (the "Department") conform to accounting principles generally accepted (GAAP) in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

**A. Reporting Entity:**

The Department was formed under the provisions of Act 33 of the Public Acts of 1951 and an agreement between Sandstone Charter Township, Parma Township, and the Village of Parma. The purpose of the agreement was to organize a police department with sufficient equipment and personnel to provide police protection to the residents of the two townships.

The Police Department is governed by a three member board. Each participating entity appoints one member.

The Department's operations are supported by contributions from the participating entities. Operating expenditures are split 30% to Parma Village and 35% each to the townships. Capital acquisitions are split equally between the three entities.

In accordance with GAAP as established by the GASB, the Department is not a component unit of the participating entities, and has no component units itself. The criteria used for this determination include oversight responsibility, scope of public services, and special relationships.

**B. Government-Wide and Fund Financial Statements:**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the Department, which are all classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental support and other items not properly included among program revenues are reported as general revenues.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

**C. Measurement Focus/Basis of Accounting:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**D. Financial Statement Presentation:**

The Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Department reports the following major funds:

General Fund – the General Fund is used to account for all financial resources except those the Board requires to be accounted for in a separate fund.

Restricted Police Fund – this fund accounts for the portion of penal fines received through the Jackson County court system, rents received from the tenant occupying a portion of the Department's building, and donations received. The Board allows the Department's chief greater discretion in determining how these funds are to be used, but they are still subject to state law and Board approval.

**E. Deposits:**

The Department has defined cash and cash equivalents as demand deposits (checking accounts), savings accounts, and short-term investments with an original maturity of 90 days or less when acquired.

Deposits are reported at cost.

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**F. Capital Assets:**

Capital assets are defined as assets with an initial individual cost of \$1,000 or greater and an estimated useful life of more than one year. Capital assets are recorded at their cost, or fair market value for donated assets. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives

The Department has established the following useful lives for its assets:

Building and improvements	10-40 years
Equipment	5-10 years
Office equipment	5 years
Vehicles	5 years

All capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental fund financial statements.

**G. Fund Equity:**

The unreserved fund balances for governmental funds represent the amount available for financing future operations.

**H. Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget was adopted on a modified accrual basis. The budget can be amended by a majority vote of the Police Board, subject to the approval of the boards of the participating entities.

**BUDGET VIOLATIONS:**

Public Act #621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Department's actual and budgeted expenditures for the budgetary funds have been shown on a line item basis, consistent with the adopted budget.

The Department did not adopt a budget for its Restricted Police Fund.

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (Continued)

BUDGET VIOLATIONS: (continued)

For the year ended February 28, 2006 the Department incurred expenditures which were in excess of the amounts appropriated. These variances are as follows:

	FINAL BUDGET	ACTUAL	OVER EXPENDITURE
Officers' wages	\$ 89,069	\$ 89,446	\$ (377)
Clerical wages	\$ 14,430	\$ 14,541	\$ (111)
Life insurance	\$ -	\$ 850	\$ (850)
Unemployment	\$ -	\$ 171	\$ (171)
Professional services	\$ -	\$ 1,760	\$ (1,760)
Radio maintenance	\$ 600	\$ 800	\$ (200)
Auto maintenance	\$ 2,000	\$ 2,571	\$ (571)
Gas and oil	\$ 3,900	\$ 5,043	\$ (1,143)
Repairs - Building	\$ 600	\$ 607	\$ (7)
Capital outlay	\$ -	\$ 32,296	\$ (32,296)

NOTE 3 - DEPOSITS:

The Board's Treasurer is authorized by state law and a resolution from the Board to invest surplus funds as follows in accordance with Village of Parma's investment policy:

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a federally insured bank or credit union, but only if the bank, or credit union meets all criteria as a depository of public funds contained in state law.

Board investment policies also address the following risks:

*Interest rate risk* - refers to the risk of a loss in the fair value of securities due to rising interest rates. The Department attempts to minimize this risk by carefully analyzing the length of times deposits are invested and cash flow needs to maximize earnings potential while keeping interest rate risk at an acceptable level. Currently, the excess funds of the Department are held in interest bearing savings account at a local credit union.

*Custodial Credit Risk* - refers to the risk the Department faces due to the failure of the issuer of a financial institution holding Department deposits. The Department does not limit the amount that can be deposited with a financial institution. During the fiscal year ended February 28, 2006 the Department's deposits were below the amount covered by FDIC insurance.

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS: (continued)**

The risk disclosures for the Department's deposits are as follows:

<u>CASH AND INVESTMENTS</u>	<u>FINANCIAL STATEMENT AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 7,901	\$ 7,901
Uninsured	-	-
	<u>\$ 7,901</u>	<u>\$ 7,901</u>

**NOTE 4 - CAPITAL ASSETS:**

Activity for capital assets of the Department is summarized below:

	<u>BALANCE 03/01/05</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE 02/28/06</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
<b>Capital assets being depreciated:</b>				
Building and improvements	89,633	11,037	-	100,670
Equipment	14,769	2,038	-	16,807
Office equipment	4,476	-	-	4,476
Vehicles	45,728	21,259	(20,889)	46,098
	<u>154,606</u>	<u>34,334</u>	<u>(20,889)</u>	<u>168,051</u>
<b>Accumulated depreciation:</b>				
Building and improvements	3,361	2,609	-	5,970
Equipment	8,939	1,579	-	10,518
Office equipment	2,238	895	-	3,133
Vehicles	36,187	9,183	(20,889)	24,481
	<u>50,725</u>	<u>14,266</u>	<u>(20,889)</u>	<u>44,102</u>
Net capital assets being depreciated	<u>103,881</u>	<u>20,068</u>	<u>-</u>	<u>123,949</u>
Net capital assets	<u>\$ 104,881</u>	<u>\$ 20,068</u>	<u>\$ -</u>	<u>\$ 124,949</u>

**PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 5 - LONG TERM DEBT:**

The Department allows the carryover of unused sick and compensatory time by its full time officers. Upon termination or retirement, the sick time would be paid off at 50% of the officer's current pay rate; compensatory and vacation time would be paid at the full current pay rate. Because of the uncertainty surrounding the timing of such payouts, the liability has been classified as a long term liability.

A summary of the activity is as follows

	Balance, 3/1/05	Additions	Payments	Balance, 2/28/06
Accrued payroll	\$ 28,865	\$ 11,789	\$ -	\$ 40,654

**NOTE 6 - EMPLOYEES' RETIREMENT PLANS:**

The Department contributes to defined contribution retirement plans established by the its two full-time police officers. These separate plans are in the name of the officers, and the Department's contributions are made under the terms of their employment agreements.

A defined contribution retirement plan provides benefits in return for service rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of these contributions. Contributions made by the employees and contributions by the Department both vest immediately. The employees contribute up to 5% of their base pay each week (pay period) to the plan. The Department's contribution equals 10% of base wages.

During the year, the Village's required and actual contributions amounted to \$8,608, which was 10.0% of its current-year covered payroll. The police officers also contributed \$2,571, which was 3.0% of the Village's current-year covered payroll. The Department's total payroll for the year was \$103,987; covered payroll totaled \$86,554.

The plans held no securities of the Village or other related parties during the year or as of the close of the fiscal year.

**NOTE 7 - RISK FINANCING:**

The Department is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the year.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Budgetary Comparison Schedule - General Fund**

PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
THE YEAR ENDED FEBRUARY 28, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>				
<b>Intergovernmental:</b>				
Government contributions	\$ 176,484	\$ 176,484	\$ 204,979	\$ 28,495
Federal grants	-	-	1,474	1,474
State grants	-	-	-	-
Total intergovernmental	176,484	176,484	206,453	29,969
<b>Interest and rents:</b>				
Interest	-	-	-	-
Rents	-	-	-	-
Total interest and rents	-	-	-	-
<b>Fines and forfeitures</b>	-	-	-	-
<b>Donations</b>	-	-	-	-
Total revenues	176,484	176,484	206,453	29,969
<b>EXPENDITURES:</b>				
<b>Public Safety:</b>				
Officers wages	89,069	89,069	89,446	(377)
Clerical wages	14,430	14,430	14,541	(111)
Payroll taxes	8,000	8,000	7,955	45
Health insurance	29,000	29,000	26,826	2,174
Life insurance	-	-	850	(850)
Unemployment	-	-	171	(171)
Workers compensation insurance	11,500	11,500	8,728	2,772
Retirement	8,620	8,620	8,608	12
Office supplies	800	800	604	196
Uniforms	-	-	-	-
Operating supplies	800	800	241	559
Professional services	-	-	1,760	(1,760)
Radio maintenance	600	600	800	(200)
Auto maintenance	2,000	2,000	2,571	(571)
Gas and oil	3,900	3,900	5,043	(1,143)
Printing	-	-	-	-
Phone, cellular, pager	2,988	2,988	2,516	472
Utilities	1,910	1,910	1,910	-
Repairs - Building	-	600	607	(7)
Computer expense	2,067	2,067	980	1,087
Schooling	-	-	-	-
Training	-	-	-	-
Miscellaneous	800	200	-	200
Capital outlay	-	-	32,296	(32,296)
Total expenditures	176,484	176,484	206,453	(29,969)
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	-	-	59,938
<b>FUND BALANCE - Beginning</b>	-	5,066	5,066	-
<b>FUND BALANCE - Ending</b>	\$ -	\$ 5,066	\$ 5,066	\$ 59,938

The accompanying notes are an integral part of this statement.



# MARKOWSKI & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203

PHONE (517) 782-9351

FAX (517) 782-0599

K. LAVERNE MARKOWSKI, C.P.A.

RONALD L. MARKOWSKI, C.P.A.

DOUGLAS E. ATKINS, C.P.A.

### MEMBERS:

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF  
SOUTH CENTRAL MICHIGAN

Police Commission  
Parma-Sandstone Inter-Municipal Police Department  
Jackson County, Michigan

We have audited the financial statements of Parma-Sandstone Inter-Municipal Police Department as of and for the year ended February 28, 2006, and have issued our report thereon dated August 30, 2006. Professional standards require that we provide you with the following information related to our audit.

### Our responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated July 10, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts including fraud may exist and not be detected by us.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Parma-Sandstone Inter-Municipal Police Department are described in Note 1 to the financial statements. We noted no transactions entered into by the Parma-Sandstone Inter-Municipal Police Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the depreciable lives of the capital assets.

We evaluated the lives of each of the assets to determine that they are being expensed over the proper period of time.

### Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Parma-Sandstone Inter-Municipal Police Department that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. There were no such proposed adjustments for the year ending February 28, 2006.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Parma-Sandstone Inter-Municipal Police Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors

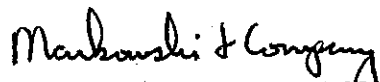
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Parma-Sandstone Inter-Municipal Police Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Difficulties Encountered in Performing the Audit

The Village clerk and treasurer and the Police Department staff were extremely helpful and cooperative during our audit. We did not encounter any difficulties in completing our audit.

This information is intended solely for the use of the Police and management of Parma-Sandstone Inter-Municipal Police Department and should not be used for any other purpose.

Very truly yours,

  
MARKOWSKI & COMPANY CPAs  
August 30, 2006

# PARMA-SANDSTONE INTER-MUNICIPAL POLICE DEPARTMENT

## MEMORANDUM OF COMMENTS AND RECOMMENDATIONS FOR THE YEAR ENDED FEBRUARY 28, 2006

This is the first time a separate audit report has been issued for the Parma-Sandstone Inter-Municipal Police Department. As a result, there were increased audit tests performed, and many more questions asked of the Police Chief and his staff, as well as the Village staff. We appreciate their timely and courteous replies to our inquiries. We would like to offer the following suggestions for the future:

### 1. EXPENDITURES IN EXCESS OF BUDGET

Michigan law prohibits spending amounts in excess of appropriations (budgeted amounts). As noted in our audit report, there were several instances of spending amounts greater than budget.

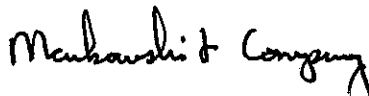
We recommend that the Police Commission continue to carefully review its actual revenue and expenditures to budgeted amounts. Amendments to the budget should be made after reviewing all financial information, as appropriate.

### CONCLUSION

We would like to thank the Village clerk, Katie Cotey, Village treasurer, Mary France, Police Chief Jon Sutliff, Sgt. Kevin Szentmiklosi, and Administrative Assistant Mary Koreen for their cooperation and patience during the audit process.

If anyone has questions regarding the items discussed in our memorandum, or if we can be of assistance with the implementation of any suggested changes, please feel free to contact us.

Sincerely,



MARKOWSKI & COMPANY CPAs

August 30, 2006